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“COSTS” AND TARIFF REVISION

Experience under the Payne-Aldrich Law of August 5, 1909, has firmly convinced the people of the United States that the legislation in question is not satisfactory. Politicians have been slower to learn, but even they are now ready to consider the present tariff with a view to revising the act. The chastisement of the Republican party has been sufficient to show the organization that it went too far in the effort to force a dishonest and extortionate piece of legislation upon an unwilling public; while the opposition has learned through observation that the tactics it pursued when the tariff bill was in Congress were as distasteful to the community as were those of the political leaders in power at the time. Because of these conditions there has been a decided change of outlook with reference to tariff revision, and today the country is obviously facing an attempt to do away with some of the iniquities of the existing régime. President Taft has summoned an extra session of Congress which, though called for another purpose, is now attempting a preliminary revision of certain schedules. Ultimately, however, the new Congress will have to revise all. Under these conditions, the state of the national consciousness on the theory and methods of revision becomes of fundamental significance.

Four distinct groups have appeared in Congress. One includes the conservative ultra-protectionists of the Republican

party. A second is composed of the so-called "progressive" Republicans whose attitude on the tariff favors a reasonable downward revision. A third composite group consists of Democrats whose traditional policy favors lower duties. The fourth is made up of senators whose recent record raises the gravest of doubts as to the existence of any unity or consistency in tariff policy among the members of the Democratic organization, since this group is far closer to the ultra-protective Republicans than to any other section of opinion. President Taft's effort to unite the members of his party in support of the existing duties was originally based upon the opinion that regularity in party faith was essential, and that such progress as could be made must be dependent upon concessions made by the ultra-protectionist wing. Of late there has been an evident change in point of view, and the Executive has manifestly tended within the past few months to ally himself more distinctly with the reform wing of the party, insisting that the conservatives yield their position so far as to allow tariff reform investigations, conducted by a "board" or "commission" with the object of recommending changes in duties wherever such changes might be found warranted or demanded by industrial conditions. Confronted by a victorious Democratic party, favoring the tariff revision which he himself urges, the President and his followers now recognize that the difference between them and their opponents must be made evident in such a way as to command popular regard for the administration and its methods rather than for the opposition party. The question whether more can be expected in tariff revision from the leadership of President Taft or from that of the Democratic leaders thus becomes acute. Moreover, personalities apart, the fundamental issue is raised whether the ideas and theories of the President as respects revision are superior to those of his party opponents. In the search for something that would differentiate the tariff reform proposed by the administration from that proposed by the Democrats, there has, however, been thrown to the front the question whether such reform shall be undertaken on a so-called "scientific" basis, or

whether it shall be attempted, as in the past, through political organizations and by political methods, the difference in tariff policy between the two parties being a difference dictated by divergence in point of view with reference to the question what a tariff is and what it stands for. This issue has assumed form in the question whether there shall be a tariff board or commission entrusted with the duty of recommending changes in schedules to Congress, or whether there shall be a revision upon old-fashioned lines through the agency of committees of Congress. In order to understand the peculiar position thus reached by the tariff controversy, it is necessary to consider briefly the history of the board or commission proposal, which has been pressed with vigor by the federal administration, for the past few months, and which will no doubt continue as an integral feature of its policy during the coming contest.

I

Since about a year before the passage of the Payne-Aldrich Tariff Law of 1909, the demand for the creation of a tariff commission to deal with desired changes in duties has been persistent and constant. During the struggle over the Payne-Aldrich Law, bills creating such commissions were introduced by various members of Congress, probably the best known being that which was offered by Senator Beveridge. Although the "old-line" members of Congress were bitterly averse to any such investigation of the tariff as was thus proposed, the insistence of President Taft succeeded in forcing the incorporation in the Payne tariff law of the following provision:

Whenever the provisions of the maximum tariff of the United States shall be applicable to articles imported from any foreign country they shall be applicable to the products of such country, whether imported directly from the country of production or otherwise. To secure information to assist the President in the discharge of the duties imposed upon him by this section, and the officers of the government in the administration of the customs laws, the President is hereby authorized to employ such persons as may be required.

Acting under the vague authority granted by this provision, President Taft appointed in the autumn of 1909 three persons

who were constituted a "Board" for the study of the tariff,¹ and in March, 1911, he added two others,² thus enlarging the board to five members, the first three to be appointed being Republicans and the last two Democrats. The efforts of the new board during the first six months of its life, or until about April 1, 1910, were entirely confined to studying foreign tariff systems and determining under what conditions, if any, maximum rates should be applied to goods coming from foreign countries. From about April 1, 1910, however, the board's work has been directed to the analysis of our own tariff schedules and the ascertainment of facts regarding them. Starting with an appropriation of \$75,000 for the year 1909-10 the board raised its requirements to \$250,000 for the year 1910-11 and received the amount asked for in a section of the Sundry Civil Appropriation Bill for 1910-11 (June 25, 1910) which reads as follows:

To enable the President to secure information to assist him . . . and the officers of the government in administering the customs laws, including such investigations of the cost of production of commodities, covering cost of material, fabrication and every other element of such cost of production, as are authorized by said act, and including the employment of such persons as may be required for those purposes; and to enable him to do any and all things in connection therewith authorized by law, two hundred and fifty thousand dollars.

In similar language the Sundry Civil Appropriation Bill for 1911-12 (March 4, 1911) provided that:

To enable the President to secure information to assist him . . . and the officers of the government in administering the customs laws, including such investigations of the cost of production of commodities, covering cost of material, fabrication and every other element of such cost of production, as are authorized by said act, and including the employment of such persons as may be required for those purposes; and to enable him to do any and all things in connection therewith authorized by law, or if a Tariff Board be established by law then for the purpose of meeting the expenditures authorized by the law, two hundred and twenty-five thousand dollars, together with the balance unexpended July first next of the appropriation made for these purposes for the fiscal year nineteen hundred and eleven.

¹ These three were H. C. Emery, chairman, J. B. Reynolds, and A. H. Sanders.

² The two latter appointees were T. W. Page and W. M. Howard.

The Tariff Board, if established by law, shall make report to each House of the Congress on the wool and woollen schedule not later than the first Monday in December, nineteen hundred and eleven.

How this sum of \$325,000 (to July 1, 1911) has been spent, it would be difficult to say in detail. Chairman H. C. Emery gave the House Committee on Appropriations an outline of some of the lines of expenditure in February, 1911,³ but apart from this no description has ever been made public, no accounting rendered, and no scheme of organization revealed. Large salaries, heavy payments to experts, costly visits to Europe, and maximum per diem allowances have taken at least one-half of the money; the balance has been used in establishing a small force of investigators in the Treasury Department, and in supporting a still smaller staff of special agents in the field. The item of \$225,000 carried in the appropriation bill for 1911-12 (passed March, 1911), for the support of the board during the year 1911-12, was allowed only after a bitter struggle to secure the passage of a bill making the Tariff Board a permanency. Such a bill was framed by the officers of the administration and handed to Representative Nicholas Longworth of Ohio for introduction in the House shortly after the Christmas holidays of 1910. Mr. Longworth presented the measure as he had been instructed to do, but defects in the bill and the personal antagonism aroused by the thrusting forward of Mr. Longworth himself rendered it necessary to take some fresh action. The bill was finally reframed by the Ways and Means Committee, given a new name, reported to the House, and passed. In the Senate it encountered opposition and after lengthy and spectacular maneuvers, accompanied, however, by but little debate, it was at last forced through shortly after 9:00 A.M. on March 4, the session closing at noon by limitation. Although votes enough to carry the bill had been engaged in the House, it was possible by a parliamentary maneuver to defer a vote. Noon came without its having been adopted notwithstanding that the administration put forth its utmost effort to compel action. The board therefore remains an extra-legal body, without statutory authority—a half-million-dollar experiment.

³ *Hearings of the House Committee on Appropriations, 1911.*

Why has this board been created and so urgently supported? When the Payne tariff was under consideration, both President Taft and others insisted upon the application of the principle of "comparative cost of production" to the formulation of rates of duty. Many times both before and during the process of revision, Mr. Taft insisted in public utterances that what was desired was the establishment of rates that would nearly equalize home and foreign costs, and would place the domestic producer upon the same level as his foreign competitor with a "reasonable profit" to justify him in remaining in business. The same assertion was repeatedly made upon the floor of Congress, although those who talked most positively paid the least heed to information regarding cost when it was offered to them. Senator Aldrich absolutely refused to receive such information in the Senate Finance Committee, and the House Ways and Means Committee merely "pigeonholed" the few items of information on costs that came to it, without paying any real heed to the data thus obtained. The scheme of fixing duties in proportion to comparative costs was found to be wholly out of the question from the practical standpoint, while the men in charge of legislation were so little able to comprehend economic problems that, although the weakness of their so-called "principle" was repeatedly pointed out to them, they paid no heed to the statements thus made but continued obstinately and blindly in the methods of tariff-making handed down from the Civil War. These time-honored methods were mainly those of allowing practically any rate of duty domestic manufacturers might ask for, provided that they could back their demands with sufficient political influence, or were sufficiently astute to maneuver a given rate through both Houses. President Taft was still of the opinion that the cost-of-production plan of fixing duties was sound in theory and had failed merely through a lack of sufficient information during the discussion of the Payne tariff. Immediately after that tariff had been enacted into law, he started upon a lengthy journey, in the course of which he undertook the vindication of the law. In the statements then made, the President practically took the view that the law in

question was only a preliminary effort whose defects, whatever they might be, were due to lack of information and were to be corrected through the compilation of accurate and detailed data obtained by a body of expert investigators. It was with this idea in mind that Mr. Taft appointed the Tariff Board and set its members at work first to study and apply the maximum tariff provisions of the Payne-Aldrich Law and then to ascertain the extent of the changes in rates of duty required to put the tariff system upon a more legitimate basis.

II

It has required only about a year of experience to bring both the President and his Tariff Board—whose first three members apparently accepted office under the impression that duties could be fixed on a comparative cost basis—to a realization that this "principle" is illusory. In a letter written by President Taft in August, 1910, to William B. McKinley occurs the following remarkable statement:⁴

When we understand that the cost of production differs in one country abroad from that in another, and that it changes from year to year and from month to month, we must realize that the precise difference in cost of production sought for is not capable of definite ascertainment, and that all that even the most scientific person can do in his investigation is, after consideration of many facts which he learns, to exercise his best judgment in reaching a conclusion.

That President Taft had drawn these greatly altered ideas on the subject of cost of production directly from members of the Tariff Board with whom he had consulted was the general opinion at the time he made his utterance, and was even intimated in semiofficial quarters. Whether Mr. Taft did actually abandon the earlier expression of strong belief in the cost-of-production theory of tariff revision in consequence of advice and suggestions received from members of his board, or whether he had actually changed his mind as the result of further individual thought, is a question which is more interesting psychologically than historically. It is at all events true that a very substantial change in his doctrine on tariff revision has now been accepted by the President. The Tariff Board itself was

⁴ *Republican Campaign Textbook* (1910), 9.

not slow to fall openly into line with executive opinion on this subject, for during the early autumn of 1910, members of the board indicated a decided disposition to abandon cost-of-production lines of thought in theory and an inclination to accept the President's new point of view with reservations. This disposition was brought to a climax in an address delivered by Chairman Emery of the board at a meeting in Chicago on December 3. Mr. Emery then said with reference to the question of cost of production:

It is unfortunate that so much emphasis has been laid on the question of getting relative costs, since many people have assumed this to be both an easy and a complete solution of the question. Any practical man knows that both these assumptions are faulty. One of the most difficult problems which a manufacturer has to solve in his own business is to determine the cost of any individual article which he produces. In fact, it would not be unreasonable for a manufacturer to respond to a request from such a body as ours for his costs of production: I would give them to you if I could get them, and I am willing to pay you a good sum if you will find them out for me. We were puzzled at the very outset by the question: "What do we mean by cost of production? Exactly what items are to be included? According to what definite principle are all general items to be prorated for a given product?" In fact, much of our time was devoted to working out a careful scheme of cost accounting which would be of such character that it could be adapted to the peculiarities of each industry without departing from a general, uniform plan. . . . Of course, in a great many instances it will be utterly impossible to apply such methods, and we have to determine clearly just how far we can go in each case and how significant the results are. It is doubtless a hopeless task to attempt to get the comparative cost of production in different parts of the world of a quart of milk or a dozen eggs. It would doubtless prove a needless task, if not impossible, to get comparative cost of farm products in general. In the same way there are many manufactured articles of such a unique quality that no comparison can be made between the products of different mills. On the other hand, there are many standardized articles where perfectly definite results can be secured. It certainly is possible to determine the cost of turning pig iron into steel rails or of turning a given quantity of pulp wood at the mills into print paper. Although it may prove impossible to secure the actual cost of production of many fancy textile fabrics, there are certain definite processes which can be studied from the cost point of view, and there are various kinds of cloth which, though not standard in the strict sense of the term, are yet near enough to it for all tariff purposes.

It seems hard to believe that some portions of this statement could have been made by a consistent thinker. Obviously if the cost principle had any application whatever it would hold quite as true of the cost of producing a quart of milk or a dozen eggs as of that of producing steel rails. What the speaker must have meant—and apparently all he could have meant—was that in industries conducted on the capitalistic basis, in which regular books are kept, it would be more nearly possible to ascertain the money outlays involved in producing a given article than in more primitively organized industries. Essentially Mr. Emery appeared to identify the notion of money outlays or expenses of production with that of costs. But it was at all events clear to the speaker that in a large range of articles the formulation of tariff rates based upon money costs was impossible and absurd.

Notwithstanding these disclaimers and in spite of the fact that the cost-of-production notion has been intellectually recognized by both the administration and the Tariff Board as unsatisfactory, the fact remains that the board has done practically all its work along strictly cost-of-production lines. Nobody questions that this board has, up to date, been amply supplied with funds or that it has in the main been satisfactorily equipped for investigation. Two members of the board have made extended visits to Europe and the third has traveled extensively in the United States. Employees of the board have also visited Europe and numerous consultations have been had with individuals and with groups of business men in this country regarding the course best to be pursued. The board, prior to March, 1911, had definitely embarked upon three main lines of investigation: (1) the drug and chemical schedule, (2) the raw wool duties, and (3) the wood pulp and print-paper duties. In addition it had engaged various experts to report upon certain duties and it has tentatively considered lines of inquiry in connection with specified portions of the tariff. Of the investigations, the only ones that have as yet been carried far enough to permit a positive prediction of their result are those relating to raw wool and wood pulp and print paper. The drug and

chemical inquiry was thwarted in its inception, at least for the time being, by the hostility of the combined manufacturers engaged in the industry, and the other investigations are still too nebulous to permit a judgment upon them. But enough has been done upon the two already indicated to show exactly what is being attempted, and from these a general judgment of the future may be formed.

In the raw wool inquiry it has been sought to ascertain the exact cost of wool raising. A detailed schedule was mapped out for use in the eastern sheep-raising districts and, after selected lists of names of farmers primarily engaged in wool raising had been obtained from the census, the schedules were placed in the hands of agents who were to obtain the data direct from the farmers. A modified form of the same schedule is being employed in the West and Southwest.

A series of detailed schedules is being employed in connection with wood pulp and print paper. Permission was obtained from the International Paper Company to place special investigators in each of its 27 plants, and similar permission was later obtained from some of the independent concerns.

Some light upon the results likely to flow from work of this kind may be had from a mass of material supplied by the board to Congress in response to a resolution presented to the Senate late in February by Senator Cummins of Iowa. In this resolution request was made for data on pulp and paper, on agricultural products, and on several other items. The board replied that it had not sufficient data upon which to base its answer save as to pulp, paper, and farm products. As to these, it transmitted information.⁵ From the materials thus furnished, costs of pulp and paper in various stages of manufacture were found to be as follows:

As will appear from Table I, the total cost of producing ground-wood pulp shows an average for all the mills investigated, covering a production of more than \$9,000,000, of \$14.78 per ton. The cost of ground wood has advanced considerably in the past ten years. From such figures as we have collected the increase has been somewhat more than 50 per cent. This increase seems to have been due almost entirely to the increase in the cost of

⁵ Senate Doc. No. 849, 61st Cong., 3d sess.

wood, since advances in wages do not seem to have increased the labor cost per ton of pulp. This is due to the greater efficiency of labor and plant. The range cost is from \$10.13 in the lowest cost mill to \$20.07 in the highest. The difference between the two costs reflects a striking difference prevailing in the various mills in the ground-wood-pulp industry in the United

TABLE I

TOTAL COST, RANGE OF COSTS, AND AVERAGE COST OF SPECIFIED ITEMS PER TON OF PRODUCT USED IN THE MANUFACTURE OF GROUND WOOD, SULPHITE FIBER, AND NEWS PRINT PAPER FOR ALL MILLS IN THE UNITED STATES REPORTING DATA.

ITEMS	TOTAL COST OF SPECIFIED ITEMS IN MILLS REPORTING	RANGE OF COST PER TON OF PRODUCT		AVERAGE COST PER TON OF PRODUCT
		Lowest	Highest	
Ground-wood pulp:				
Wood.....	\$ 6,698,343.75	\$ 7.33	\$15.01	\$10.64
Manufacture—labor.....	1,330,012.98	.98	3.78	2.12
Other costs.....	1,269,580.82	.29	7.00	2.02
Total cost in bulk at mills.	9,288,947.55	10.13	20.07	14.78
Sulphite:				
Wood.....	6,740,836.23	13.28	25.89	19.08
Manufacture—labor.....	1,283,702.25	2.09	4.83	3.63
Other costs.....	3,528,529.65	7.48	13.02	10.01
Total cost in bulk at mills.	11,563,068.13	24.11	38.43	32.72
News print paper, stock:				
Ground-wood pulp.....	9,965,192.83	7.79	18.54	12.61
Sulphite pulp.....	6,663,284.93	6.31	13.89	8.43
Other materials.....	920,683.42	.31	3.08	1.17
Total stock.....	17,549,161.08	15.28	28.38	22.21
Manufacture—labor.....	2,570,770.84	2.19	6.06	3.25
Other costs.....	5,585,130.81	5.44	8.55	7.07
Total cost in bulk at mills.	25,705,067.73	25.38	39.57	32.53

States, and in the single item of wood the range of cost is even wider, being from \$7.33 of pulp in the lowest to \$15.01 per ton in the highest. From the detailed figures it appears that the cost per cord of pulp wood ranges from \$7.70 to \$15.34, these being figures actually charged on the books of pulp manufacturers. Nearly every range of cost between the two extremes mentioned above is to be found in the detailed figures. These variations are due partly to natural causes, such as location and facility of transport, and partly to the different methods of charging for wood by mills owning their wood supplies, as explained in the preceding statement.

As to agricultural products, the board contented itself with transmitting tables of comparative prices showing quotations for the United States and Canada, figures giving values of farm land in Canada and the United States, and rates of wages, prices of machinery and the like in the two countries. It is a significant and interesting fact that among the "comparative agricultural statistics for the United States and Canada" furnished by the board there was included a table of farm-land values. This, as is evident from the context and as has been admitted by members of the board in conversation, was supplied on the theory that the cost of land directly affects the selling value of farm products and may be regarded as analogous to the cost of capital to the manufacturer. It is worth noting also that in estimating money costs tariff charges affecting prices appear to have been included as a part of the actual cost of production.

Supposing that the data collected by such methods as have been described, from each of the industries in which they were applied, were absolutely accurate and complete, what would the information thus presented amount to? It would presumably afford the basis for a knowledge of the money costs or outlays involved in producing a unit of raw wool or of print paper. Of what service would this be? The theory upon which the board has been working has been that, provided similar money cost or outlay figures could be obtained from plants conducted by our foreign competitors in production of corresponding articles, it would be possible to draw conclusions as to the adequacy of the tariff protection now accorded to the articles referred to. Upon these some conclusions regarding the reform of the tariff could be founded. This theory is evidently still based upon the belief expressly repudiated both by President Taft and by Chairman Emery, in its application at least to many classes of goods, that cost of production can actually be ascertained and employed for the purpose of determining tariff rates. The board, whatever else it is doing, and despite the disclaimers of the chairman, is undoubtedly seeking to ascertain money costs. How far such an effort will be helpful can be ascertained only by an analysis of the significance of comparative cost

of production in this connection from a purely theoretical standpoint.

III

Abstractly stated, the idea of money cost of production as a guiding principle in tariff revision is simple. Suppose the existence of two countries, A and B, each of which produces but one commodity—X. If the real cost of producing a unit of X in each of the two countries is the same the article will go on being produced by each. If, now, X is but one of a series of articles and country A has a greater advantage in producing some commodity other than X it may conclude to devote its whole attention to that other commodity and to import its supplies of X from country B. But we may fairly assume that, other things being equal, the two countries will produce X for their own needs because cost of production is the same and transportation expenses are saved by making the goods locally. Suppose however that with the application of a given amount of labor and capital only one-half as much of X can be produced in country A as in country B. Then, on the basis of the familiar protective theory, if X is to be produced in A, a duty must be imposed upon quantities of X shipped from B to A equal to this difference in cost. Such a duty will presumably equalize the conditions and prevent the manufacturers of A from being driven out of business by the low-priced goods shipped from B. This, however, assumes that the differences in cost of production between the two countries can be more or less accurately measured in money and that in fixing the protective duty a rate can be established which will roughly correspond to these differences in cost as stated in terms of money. Supposing that such is the case, the plan of equating costs of production can be carried out in the way indicated. A further question now arises. Suppose that the commodity in question is not produced by a single individual or concern in either A or B but that there are (say) three gradations of producers in each country with costs differing between them. In country A, which produces at a disadvantage, we may assume that these three grades of producers are represented by the numbers 1,

2, 3. If now the three grades of producers in country B are represented by the numbers 4, 5, 6, the higher number in every case representing the output and standing for the producer who can turn out his goods at least expense, it is evident that a rate of protection which will prevent the most productive manufacturer in B from shipping his goods into A at any price that will interfere with No. 1, the poorest producer in A, will inevitably give to producers 2 and 3 in A a much larger margin of profit than can be obtained by 1. It is also plain that if at any time in the future conditions should change in such a way as to permit exportations from B to A, it would at first be only under conditions such as would suffer the most productive manufacturer in B to ship since he alone could overcome the protective duty and get the goods into country A in competition with the articles most cheaply produced there.

A more complex situation arises when a number of articles have been protected by duties supposed to represent their disadvantages in cost. When such tariff rates have been imposed the comparison of money costs falls to a position of scarcely any interest. Since one industry uses the products of others, the latter being themselves the output of protected plants, no fair comparison of money costs is feasible. Moreover, since money wages are adjusted to correspond with the higher range of prices in the country, the cost analysis which depends upon the ascertainment of wage payments for the labor element represents nothing of significance. All this, moreover, is based upon the assumption that all possible records and data relating to money costs are carefully kept and are made accessible to investigation in every country desired. The facts, of course, are quite opposed to any such supposition. Not only is cost accounting an undeveloped branch of accounting in general but it is applied in only a small percentage of establishments either here or abroad. Finally, it remains true that manufacturers in the United States have shown great reluctance, and that those in foreign countries have absolutely refused, to open their books to investigators.

The case against the cost-of-production theory as a regu-

lator of tariff duties may be summed up in a series of propositions somewhat as follows:

1. In practice the ascertainment of costs is impossible. No board or commission has the power to demand cost statements from manufacturers or producers; and if it had, it could not secure truthful statements. Moreover, there is no way of obtaining statements of any kind from foreigners.

2. Even if all manufacturers both here and abroad were willing to throw open their books in an absolutely honest and impartial way to an all-powerful commission it would be of little service. This is because cost accounting is not generally practiced by producers and because, where it is practiced, there is no general agreement as to the treatment of different elements of cost.

3. If there were a perfect system of cost accounting installed upon a uniform basis in every plant manufacturing a given article throughout the world, knowledge of comparative costs would still be of little service, since costs in every country would have to be known before any conclusions could be arrived at as to what tariff rate was needed to protect a given country against the competition of others.

4. If all these facts were known for every country, the difficulty would be about as great as it was previously if the data were to be used for the establishment of tariff rates. This is because costs of production vary as widely within a given country as they do between different countries. Unless it were known whether a duty were to be imposed for the purpose of equalizing costs as between the best, the poorest, or the average (or normal) establishment in the several countries, the information about costs would be useless as a basis of tariff duties.

5. Even with knowledge on all of the points already enumerated, and with a clear-cut intention on the point indicated in (4) above, the cost analysis would still be inadequate because of the fact that many commodities are produced in groups, or as by-products of one another, so that to utilize the general cost analysis as a basis for tariff rates it would be necessary to know the manufacturer's intention with reference to the fixing of

prices. It would further be necessary to know that the manufacturer had no disposition to establish "export prices" at rates lower than those that would be dictated by his costs of production.

6. If all of the foregoing factors were known, including positive data regarding the intention of the manufacturer in regard to the establishment of prices, there would still remain the question whether this information about costs, which is necessarily stated in terms of money, would have any real significance of a permanent economic character. Money costs do not correspond in all cases to real costs as measured by sacrifice of labor and capital. It may be true that a given country can produce much more cheaply than another, yet it does not follow that it will so produce, since its cost advantage in some other line may be so much greater as to dictate its devoting its attention almost exclusively to that line.

For all these reasons, the conclusion must be reached that cost of production is both practically impossible and theoretically unsound as a basis for the establishment of tariff duties.

IV

While members of the administration have in theory been discarding the impossible "principle" which was developed during the last presidential campaign as a guide for tariff revision but have in practice been applying their erroneous methods of studying this subject, a long-expected political revolution has thrown the balance of power into the hands of their opponents and has placed the latter in a position of comparative authority by giving them control of the federal House of Representatives. By this change in the alignment of parties, a situation has been produced in which it becomes practically necessary for the administration to reckon more or less carefully with the opposition and to consider not only its own mental condition but also the views of critics in regard to the making of tariff rates. Further, the Democratic party, by the President's action in summoning an extra session of Congress, has practically been placed in a strategic position and has secured the opportunity of anti-

pating the Tariff Board in the matter of revision, provided it proves able to take advantage of the opportunity.

The Democrats have at least the chance of preparing bills that will meet the public approval and presenting them to the session of the new Congress which opened on April 4, 1911. What principle will be employed by the party in shaping these measures? It has been distasteful to many Democrats from a purely political point of view that they should be obliged to depend upon the work of a board created by a President of the United States largely in defiance of the wishes of Congress and in a very great degree in direct opposition to the expressed views of Democratic leaders. The question what can be done with or without the officially gathered data is interesting. If the new House should succeed in passing a bill for tariff reform that would be generally considered satisfactory by the community at large there would be little prospect for a Tariff Board in the future. It would be seen that whatever was to be obtained by the process of revision could be had through the application of general knowledge and enforcement of the requirement that tariff conditions conform to revenue needs rather than to extreme protective demands.

The leaders of the Democratic party in the lower chamber of Congress, and to a considerable extent those in the upper, have already declared themselves in positive terms against the idea of cost of production as a controlling principle in the alteration of tariff duties and have suggested as a substitute the familiar catchword of a "revenue tariff." This can signify only that in fixing duties the rates shall be established upon a basis that will yield the largest possible income, and that point of view is expressly accepted by some who assert their belief that under existing conditions of federal expenditure it is not possible for the federal government to be conducted without very nearly as much revenue as is derived from the various sources now relied upon. In recent debates, Democrats have not shown themselves friendly as a party to the opening of such new sources of revenue as the corporation tax. They are doubtless committed to the maintenance of the tariff as the greatest productive source

of income in national finance. In fact, try as they might, Democrats probably could not succeed in eliminating the tariff as an important source of revenue. In stating that they favor a "revenue tariff," the Democratic leaders thus appear to be furnishing an explanation of their policy, when in reality they are doing nothing of the sort. While undoubtedly a rearrangement of duties might be made in such a way as to lower their general level and at the same time produce a larger income than is now expected, there is no evident intention of seeking any such rearrangement. All that is talked of now is the revision of certain schedules in such a way as to shift to the free list articles which enter largely into family budgets, and to reduce the duties on others which are considered to be unreasonably high and which may fairly be lowered in the interest of the consumer. These are ideals that in the main are inconsistent with the notion of a revenue tariff. The shifting of any article to the free list necessarily means a loss of revenue, while a reduction of rate on an article which enters largely into consumption may or may not stimulate importation to a point that will offset the reduction of duty through the collection of duty upon a greater aggregate of commodities. There is, however, another good and sufficient reason for believing that no rearrangement of the tariff upon a "revenue basis," in any sincere or honest sense of the term, is contemplated.

In certain sections of the country which are predominantly Democratic in politics protective feeling is unmistakably as strong as it is in the most Republican of states. Conspicuous examples of this condition of affairs are seen in Louisiana and Florida, and the protectionist leanings of the representatives of those states are positively demonstrated by the balloting in Congress, by the speeches of representatives and senators, and by the demands for higher protection upon local products or upon products heretofore admitted free or at small duties. Probably there was no section of the country whose representatives showed a more ultra and unreasonable attitude during the recent contest over the Payne-Aldrich Bill than did the Louisiana Democrats in their attitude upon sugar, the Florida

Democrats in their demand for a duty upon long staple cotton, or the men from North Carolina and neighboring states in their insistence upon a higher rate on lumber. With such ideas prevailing, can it be expected that tariff revision, if undertaken by the Democrats, will be directed along "revenue" lines? There is no reason to suppose so. The changes made by a party essentially composed as is the Democratic party cannot be of a kind or extent that would alienate the necessary support within the organization unless the leaders of the party were willing to be isolated and made a laughing-stock before the community. Their object in revision must be accepted as substantially identical with that of the so-called progressive Republicans—that is to say, nothing more than the removal of excess protection accorded to special classes of articles and out of harmony with the general level of duties maintained by the tariff bill as a whole.

V

From what has been said it will be seen that although much is heard of tariff revision at the present time there is no clear or consistent principle governing any of the political groups which is at work upon the subject. President Taft and his Tariff Board or commission are following an economic *ignis fatuus*, while their opponents, many of whom are doubtless sincerely talking of a tariff for revenue, are not in a position to make their suggestions good and apparently have no real notion of a revision of the kind they speak of. This, however, is a situation whose significance is found primarily in connection with an existing problem. There is one phase of the tariff issue which still demands consideration—whether, entirely apart from the question of cost of production, there may not be an advantage in having a scientific board or commission constantly at work upon the tariff, accumulating and systematizing information with reference to existing duties, and indicating the points at which changes may properly be made, or, at all events, points where present rates are not working satisfactorily. This question figured in an important way during the brief and abortive debate on the tariff commission question at the past ses-

sion and it will continue to be of some significance, owing to the fact that President Taft is continuing his Tariff Board in operation and seems disposed to maintain its efficacy as well as to attempt once more its establishment on a permanent basis. The question is thus raised as a serious national problem, precisely what a tariff commission can do.

It is positively agreed by all groups and parties in Congress and practically by all students of American constitutional conditions that the granting of legislative power in any measure whatever to a tariff commission is out of the question. The Supreme Court has already ruled that the President of the United States may be vested with authority to make changes in duties, such as the application of maximum rates under specified conditions, when the circumstances to guide his action have been marked out by Congress with sufficient definiteness. This, however, is a duty which can perfectly well be performed by the President with the aid of the State Department and does not need the work of a tariff commission. The task of administering tariff legislation, with the immense force which is necessary for that purpose, has always been confided to the Treasury Department and constitutes the chief duty of that organization. It is not a function that can properly be taken from the Treasury; and, so far as now appears, no one desires to assign to a tariff commission any portion of the work of customs administration. Congress has already provided for the judicial settlement of tariff questions by the organization of a customs court. This court has the function of interpreting provisions in the law and of settling ambiguities concerning administrative method. No one has suggested the transfer of such functions to the proposed new body. All that remains, then, for the commission to do is to pass upon industrial conditions and to make up its mind when changes in such conditions call for a change in tariff duties. This investigative function is to be undertaken because of the lack of reliable and positive information regarding the status of industry and the conditions which presumably call for the use of protective duties.

What the proposed commission can do must therefore be

considered as a twofold problem—what can be done by a commission as such better than by some different type of organization, and what can be done by any organization working on the general tariff issue. Dealing with the first part of the question first, it is clear that nothing is to be gained by the organization of tariff investigators in the form of a commission, if, as already stated, their duties are purely those of investigation. Experience shows that such work is accomplished far better through the agency of a single individual acting with a corps of special investigators under his direction than by a group of several persons who may or may not be harmonious and whose efforts to supervise and direct such an investigation are almost certain to conflict with one another. Very poor results have been obtained in the past from those commissions which were created for investigative purposes solely, while good results have been obtained from bureaus or other similarly centralized organizations placed under the charge of a single individual and directed to get such information as they could along specified lines. The bureau of corporations is a good example of what can be accomplished in this way, its reports having in many cases been accurate and authoritative, ranking very much higher than those of the various commissions and other similar bodies which have been called into existence by Congress from time to time. Turning to the question what can be done by any commission, bureau, or other organization working on the tariff question and whether therefore it is wise to have such an organization at all, the answer must be very far from positive. The facts about the tariff are for the most part of a kind that admit a twofold interpretation, and the decision what duties are to be imposed in order to give adequate protection to domestic industry is essentially a partisan problem. As has been seen, a definite answer to such a question can be afforded only in case there is preliminary admission that protection is a desirable thing and that the amount of it which is "needed" can accurately be measured. Neither of these points would be universally admitted, for there still remain many persons who do not believe in protection at all, while a very much larger number of believers in

the theory think that enough has been done along many lines to aid in the establishment of industries, and that the most desirable national policy will henceforward be the entire withdrawal of protective measures in the case of those industries that have become firmly rooted. With still others there will continue to be grave differences of opinion as to the extent to which protection should be carried and as to whether it should be sought to apply a sufficient amount of duty to take care of the poorest plant engaged in competition or whether the protection accorded should be enough to take care only of those who manufacture at "average" cost or who produce the major part of the supply consumed. Inasmuch as these differences of opinion will always exist, the tariff question will undoubtedly continue to be primarily a political issue, and good will be derived from the operations of a commission or bureau only to the extent that such commission or bureau is simply an organization for the ascertainment of fact and the study of industrial conditions. So soon as such a board or commission departs from pure investigation and begins to direct its attention to "costs" or to rates and to making recommendations as to changes therein it will become a partisan body. As such it will be subject to the same attacks and the same changes of personnel that will hold good of any other political organization.

It is thus impossible to conceal the fact that the tariff commission movement, though it has its good features, is one of those mistaken political agitations which from time to time enlist strong support in their behalf and succeed in presenting to the public the appearance of furnishing a solution of some vexed problem. In such cases it invariably turns out that the supposed solution is nothing more than a new way of stating the problem and that, instead of furnishing a road to the successful disposition of a troublesome issue, it merely defers that issue to a later date or else slightly alters its terms. In the tariff commission plan there remain the same questions of principle and the same problems of policy which exist in the discussion of the tariff before a legislative body. The only advantage

to be obtained by a tariff commission as compared with a committee of Congress is seen in the fact that such a body has more time for detailed and dispassionate investigation and is less likely to be harrassed by political exigencies to which general principles or convictions have to be subordinated. This advantage is offset by the fact that, as we have seen, such a commission can have no legislative authority and must enforce its conclusions upon Congress before they can be enacted into law. About all that can be expected from such a commission, therefore, is that it shall be somewhat more rational and less guided by irrelevant motives than would be true of a committee of Congress. But what the body thus gains in rationality and in honesty it loses in force and vitality. There is little probability that the conclusions of a tariff commission or board will ever commend themselves to the community in so forcible a way as to enlist adequate support. If they are essentially protective in tone they will be antagonized by free traders. If they are essentially free trade in point of view, they will be antagonized by protectionists. If they aim merely to eliminate the crooked scheming and subterranean manipulation of schedules which have characterized many of the tariff bills of the past, they will at once enlist the opposition of the beneficiaries of such scheming who are almost invariably stronger than those members of a party who would prefer to guide themselves by general considerations of honesty and equity. There is little to be hoped from the tariff commission scheme; nothing that cannot be had through a much simpler type of organization. The proposal is merely one of those deceptive ideas which draw after them a group of deluded followers and which ultimately result in the popular reaction that always follows disappointment.

VI

Our analysis of the basis for the present tariff reform movement is now completed. We have seen that, instead of a revision based upon scientific principles and conducted upon non-political principles the country is now confronting the same problem as in former years. The "scientific" principle of revision advo-

cated by President Taft, whereby tariff duties were to be made dependent on differences in cost, has been found to have no substance and to be intellectually doubted even by its authors and supporters. In practice the board created by President Taft has fallen into economic heresies, has failed to apply any clear, clean-cut, and self-consistent method of interpretation to its results, and has found the task imposed upon it next to impossible. The Democratic party, though perhaps thinking that it has a principle of revision, has none. The only new issue introduced into the situation, therefore, is found to be that of the establishment of a permanent board for the study of tariff facts whose functions would be of more than questionable utility. As for actual revision in Congress, the fact remains that such revision is a political question to be settled by ballot. The only point at stake is whether the protected manufacturers shall be given more or less of a monopoly of the home market, and the only way of regulating the extent of that control is through the raising or lowering of duties upon a basis determined by reference to experience and designed solely for the purpose of allowing more or less goods to enter, as past practice has shown that they will. On this subject the country has already expressed itself in positive terms, calling for a reduction of the duties and the consequent narrowing of the market monopoly accorded to domestic producers whose high prices have thrown an unendurable burden upon the consumer. There is no need of further beating about the bush. If the party now in control of the lower House of Congress is unwilling to take its courage in its hands and make a distinct and definite cut in duties the question must simply be referred once more to the electorate. It can neither be evaded nor explained away by erroneous reasoning about cost of production or revision on a revenue basis.

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